

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Empire	County Empire
Audit Date 2/28/05	Opinion Date 6/9/05	Date Accountant Report Submitted to State: 7/20/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

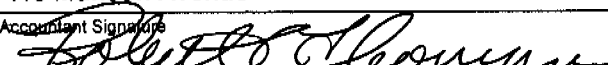
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Dennis, Gartland & Niergarth, P.C.			
Street Address 415 Munson Avenue	City Traverse City	State MI	ZIP 49686
Accountant Signature 		Date 07/20/05	

Village of Empire

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

February 28, 2005

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Village of Empire

VILLAGE OFFICIALS

February 28, 2005

Michael Deering	President
Darlene Perfect	Treasurer
Patricia Zoyhowski	Clerk
Ryan Deering	Trustee
Susan Michener	Trustee
Nathaniel Gray	Trustee
Ashlea Walter	Trustee
Cheryl Fettes	Trustee
Edwin Simpson	Trustee



DENNIS, GARTLAND & NIERGARTH P.C.

Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable President and
Members of the Village Council
Village of Empire
Leelanau County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the *Village of Empire* (the "Village") as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As noted in Note B, the Village has partially implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of February 28, 2005.

The Village has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Member of



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In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2005, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The budgetary comparison information on pages 24 - 26 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth, P.C.

June 9, 2005

Village of Empire

STATEMENT OF NET ASSETS

February 28, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and equivalents	\$ 473,002	\$ 26,599	\$ 499,601
Investments	171,030	127,989	299,019
Cash restricted for debt	-	22,500	22,500
Accounts and advances receivable	3,408	5,000	8,408
Property taxes receivable	755	-	755
Due from other governmental units	3,020	-	3,020
Prepaid expenditures and deferred charges	594	745	1,339
Total current assets	651,809	182,833	834,642
Capital assets, net of accumulated depreciation	293,286	400,218	693,504
Total assets	<u>\$ 945,095</u>	<u>\$ 583,051</u>	<u>\$ 1,528,146</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 10,872	\$ 445	\$ 11,317
Accrued liabilities	9,077	94	9,171
Deposits and advances	6,840	661	7,501
Current portion of long-term debt	-	6,000	6,000
Total current liabilities	26,789	7,200	33,989
Long-term debt			
Bonds payable	-	130,000	130,000
Total liabilities	26,789	137,200	163,989
NET ASSETS			
Invested in capital assets, net of related debt	293,286	264,218	557,504
Restricted	-	22,500	22,500
Unreserved	625,020	159,133	784,153
Total net assets	918,306	445,851	1,364,157
Total liabilities and net assets	<u>\$ 945,095</u>	<u>\$ 583,051</u>	<u>\$ 1,528,146</u>

The accompanying notes are an integral part of these financial statements.

Village of Empire

STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants and Contribution	Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
Legislative	\$ 5,921	\$ -	\$ -	(5,921)	\$ -	(5,921)
General government	144,708	-	121	(144,587)	-	(144,587)
Public safety	5,424	-	1,039	(4,385)	-	(4,385)
Public works	47,210	-	-	(47,210)	-	(47,210)
Parks and recreation	41,735	-	-	(41,735)	-	(41,735)
Depreciation - unallocated	5,899	-	-	(5,899)	-	(5,899)
Total governmental activities	250,897	-	1,160	(249,737)	-	(249,737)
Business-type activities						
Water system	54,088	61,620	-	-	7,532	7,532
Total	\$ 304,985	\$ 61,620	\$ 1,160	(249,737)	7,532	(242,205)
General revenues						
Property taxes, levied for general purposes				217,602	-	217,602
State shared revenues				70,954	-	70,954
Investment earnings				6,347	-	6,347
Miscellaneous				4,028	-	4,028
Total general revenues				298,931	-	298,931
Change in net assets				49,194	7,532	56,726
Net assets, beginning of year				869,112	438,319	1,307,431
Net assets, end of year				\$ 918,306	\$ 445,851	\$ 1,364,157

Village of Empire

GOVERNMENTAL FUNDS - BALANCE SHEET

February 28, 2005

	General Fund	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 211,013	\$ 40,041	\$ 68,855	\$ 11,941	\$ 331,850
Investments	141,530	24,000	5,500	-	171,030
Receivables					
Taxes	755	-	-	-	755
Accounts	3,378	-	-	-	3,378
Prepaid expenses	3,020	-	-	-	3,020
Total assets	<u>\$ 359,696</u>	<u>\$ 64,041</u>	<u>\$ 74,355</u>	<u>\$ 11,941</u>	<u>\$ 510,033</u>
LIABILITIES					
Accounts payable	\$ 7,732	\$ 648	\$ 443	\$ -	\$ 8,823
Accrued liabilities	2,952	47	51	-	3,050
Deposits and advances	6,840	-	-	-	6,840
Due to other funds	4,226	-	-	-	4,226
Total liabilities	<u>21,750</u>	<u>695</u>	<u>494</u>	<u>-</u>	<u>22,939</u>
FUND BALANCE					
Designated	250,690	-	-	-	250,690
Unreserved and undesignated	87,256	63,346	73,861	11,941	236,404
Total fund balance	<u>337,946</u>	<u>63,346</u>	<u>73,861</u>	<u>11,941</u>	<u>487,094</u>
Total liabilities and fund balance	<u>\$ 359,696</u>	<u>\$ 64,041</u>	<u>\$ 74,355</u>	<u>\$ 11,941</u>	

Reconciliation of Governmental Fund Balance to District-Wide Governmental Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$181,155 and the accumulated depreciation is \$67,008.	114,147
Internal service funds are used by management to charge the costs of certain activities, such as equipment rent, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	322,896
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:	
Accrued leave	(5,831)
Total net assets - governmental activities	<u>\$ 918,306</u>

The accompanying notes are an integral part of these financial statements.

Village of Empire

GOVERNMENTAL FUNDS - STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended February 28, 2005

	General Fund	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 217,602	\$ -	\$ -	\$ -	\$ 217,602
Intergovernmental revenues	28,271	24,722	17,711	1,039	71,743
Contributions	-	-	-	250	250
Interest income	4,807	663	837	161	6,468
Other	4,028	-	-	-	4,028
Total revenues	<u>254,708</u>	<u>25,385</u>	<u>18,548</u>	<u>1,450</u>	<u>300,091</u>
EXPENDITURES					
Legislative					
Council	5,921	-	-	-	5,921
General government					
Administrative	94,810	-	-	-	94,810
Elections	623	-	-	-	623
Clerk	32,746	-	-	-	32,746
Treasurer	3,694	-	-	-	3,694
Public safety	5,424	-	-	385	5,809
Public works	7,766	15,515	16,060	-	39,341
Recreation and cultural					
Park department	41,735	-	-	-	41,735
Capital outlay	70,524	-	-	-	70,524
Total expenditures	<u>263,243</u>	<u>15,515</u>	<u>16,060</u>	<u>385</u>	<u>295,203</u>
REVENUES (UNDER) OVER EXPENDITURES	<u>(8,535)</u>	<u>9,870</u>	<u>2,488</u>	<u>1,065</u>	<u>4,888</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	16,180	-	16,180
Operating transfers out	(35,000)	(6,180)	-	-	(41,180)
Total other financing sources (uses)	<u>(35,000)</u>	<u>(6,180)</u>	<u>16,180</u>	<u>-</u>	<u>(25,000)</u>
NET CHANGE IN FUND BALANCE	<u>(43,535)</u>	<u>3,690</u>	<u>18,668</u>	<u>1,065</u>	<u>(20,112)</u>
Fund balance, beginning of year	<u>381,481</u>	<u>59,656</u>	<u>55,193</u>	<u>10,876</u>	<u>507,206</u>
Fund balance, end of year	<u>\$ 337,946</u>	<u>\$ 63,346</u>	<u>\$ 73,861</u>	<u>\$ 11,941</u>	<u>\$ 487,094</u>

The accompanying notes are an integral part of these financial statements.

Village of Empire

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

Total net change in fund balance - governmental funds \$ (20,112)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds expenditures. However, those costs are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Capital outlays	\$ 60,471	
Depreciation expense	<u>(5,899)</u>	54,572

In the statement of activities, certain operating expenses - accrued leave - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year, the accrued leave was greater than the amount used by \$2,782. (2,782)

Internal service funds are used by management to charge the costs of certain activities, such as equipment rent, so individual funds. The net revenue of the internal service funds is reported with governmental activities. 17,516

Change in net assets of governmental activities \$ 49,194

Village of Empire

PROPRIETARY FUNDS - BALANCE SHEET

February 28, 2005

	Business-Type Activities - Enterprise Funds <u>Water Fund</u>	Governmental Activities - Internal Service Fund <u>Equipment Fund</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 26,599	\$ 141,152
Cash restricted for debt retirement	22,500	-
Investments	127,989	-
Accounts receivable	5,000	30
Due from other funds	-	4,226
Prepaid expenses	<u>745</u>	<u>594</u>
Total current assets	<u>182,833</u>	<u>146,002</u>
PROPERTY, PLANT AND EQUIPMENT		
Building and equipment	610,540	308,071
Construction in progress	<u>51,117</u>	<u>-</u>
Total property, plant and equipment	661,657	308,071
Less accumulated depreciation	<u>(261,439)</u>	<u>(128,932)</u>
Net property, plant and equipment	<u>400,218</u>	<u>179,139</u>
	<u><u>\$ 583,051</u></u>	<u><u>\$ 325,141</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 445	\$ 2,049
Accrued wages and related liabilities	94	196
Deferred revenues	661	-
Current portion of long-term debt	<u>6,000</u>	<u>-</u>
Total current liabilities	7,200	2,245
LONG-TERM DEBT , net of current maturities	<u>130,000</u>	<u>-</u>
Total liabilities	<u>137,200</u>	<u>2,245</u>
NET ASSETS		
Invested in capital assets, net of related debt	264,218	179,139
Restricted	22,500	-
Unrestricted	<u>159,133</u>	<u>143,757</u>
Total net assets	<u>445,851</u>	<u>322,896</u>
	<u><u>\$ 583,051</u></u>	<u><u>\$ 325,141</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Empire

PROPRIETARY FUNDS - STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

Year Ended February 28, 2005

	Business-Type Activities - <u>Enterprise Funds</u> <u>Water Fund</u>	Governmental Activities - <u>Internal Service Fund</u> <u>Equipment Fund</u>
Operating revenues		
Charges for services	\$ 60,697	\$ 45,884
Other	<u>923</u>	<u>272</u>
Total operating revenues	<u>61,620</u>	<u>46,156</u>
Operating expenses		
Payroll and related benefits	12,894	16,322
Supplies	3,729	3,512
Utilities	3,651	5,512
Repairs and maintenance	2,031	1,102
Equipment rental	1,380	-
Insurance	4,109	7,439
Depreciation	15,909	18,893
Miscellaneous	<u>6,666</u>	<u>102</u>
Total operating expenses	<u>50,369</u>	<u>52,882</u>
Operating income (loss)	<u>11,251</u>	<u>(6,726)</u>
Nonoperating revenues (expenses)		
Loss on sale of assets	-	(2,209)
Interest income	3,131	1,451
Interest expense	<u>(6,850)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(3,719)</u>	<u>(758)</u>
INCOME (LOSS) BEFORE TRANSFERS	7,532	(7,484)
Transfers from other funds	<u>-</u>	<u>25,000</u>
CHANGE IN NET ASSETS	7,532	17,516
Net assets, beginning of year	<u>438,319</u>	<u>305,380</u>
Net assets, end of year	<u><u>\$ 445,851</u></u>	<u><u>\$ 322,896</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Empire

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS

Year Ended February 28, 2005

	Business-Type Activities - <u>Enterprise Funds</u> <u>Water Fund</u>	Governmental Activities <u>Internal Service Fund</u> <u>Equipment Fund</u>
Operating activities		
Cash received from customers	\$ 77,824	\$ 46,156
Cash paid to suppliers and employees	<u>(49,345)</u>	<u>(33,330)</u>
Net cash provided by operating activities	<u>28,479</u>	<u>12,826</u>
Investing activities		
Interest received	3,131	1,451
Proceeds from sale of investments	<u>5,069</u>	<u>-</u>
Net cash provided by investing activities	<u>8,200</u>	<u>1,451</u>
Capital and related financing activities		
Interest paid	(6,850)	-
Proceeds from sale of fixed assets	-	750
Purchase of fixed assets	(15,075)	(10,655)
Bonds retired	<u>(6,000)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(27,925)</u>	<u>(9,905)</u>
Non-capital financing activities		
Transfers from other funds	<u>-</u>	<u>25,000</u>
NET INCREASE IN CASH	8,754	29,372
Cash, beginning of year	<u>40,345</u>	<u>111,780</u>
Cash, end of year	<u><u>\$ 49,099</u></u>	<u><u>\$ 141,152</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Empire

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the significant accounting principles and practices of the Village of Empire (the "Village") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Village's financial activities for the year ended February 28, 2005.

The Financial Reporting Entity

The Village's financial statements include the accounts of all Village operations. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the Village is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Village. Additionally, the Village is required to consider other organizations for which the nature and significance of their relationship with the Village are such that exclusion would cause the Village's financial statements to be misleading or incomplete. The Village has not identified any blended or discreetly presented component units requiring inclusion in the Village's financial statements.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the Village as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are certain charges between the Village's water and equipment pool functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with that fund. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Village's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fund Financial Statements

The balance sheets and statements of revenues, expenditures/expenses and changes in fund balance/net assets (i.e. fund financial statements) for the Village's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type's assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The fund financial statements of the Village are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The Village applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

NOTES TO FINANCIAL STATEMENTS - Continued

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fund Financial Statements

The balance sheets and statements of revenues, expenditures/expenses and changes in fund balance/net assets (i.e. fund financial statements) for the Village's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type's assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The fund financial statements of the Village are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The Village applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

NOTES TO FINANCIAL STATEMENTS - Continued

Capital Assets

Capital assets, which include property, plant and equipment, are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Village generally capitalizes assets with costs of \$1,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

Land improvements	20 years
Buildings and improvements	20 - 50 years
Water systems	40 - 60 years
Equipment	5 - 10 years
Vehicles	5 - 10 years

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund equity represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Unrestricted net assets of proprietary funds represent the net assets that have not been legally identified for specific purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - ACCOUNTING AND REPORTING CHANGES

In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Village has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Village has elected to implement the general provisions of the statement in the current year. However, in accordance with the provisions of GASB 34, the Village has elected not to report general infrastructure assets retroactively at this time. Certain significant changes in the statement include the following:

- a. Financial statements prepared using full accrual accounting for all of the Village's activities,
- b. A change in the fund financial statements to focus on the major funds,

NOTES TO FINANCIAL STATEMENTS - Continued

- c. Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$114,147 that would previously have been reported in the general fixed assets account group,
- d. Capital assets at March 1, 2004 previously reported in the general fixed assets account group, have been adjusted to \$59,575 to reflect the historical cost of the Village's capital assets at that date.

As a result, the Village's governmental funds have been restated as of March 1, 2004, as follows:

Fund balance - beginning of year in the General and Special Revenue Funds as adjusted for GASB Interpretation 6	\$ 499,245
Fund balance - beginning of year in Internal Service Funds classified as governmental activity	305,380
Fund balance - beginning of year in Expendable Trust Fund reclassified as a Special Revenue Fund	7,961
Capitalization of capital assets, net of accumulated depreciation	59,575
Accrued leave liability	<u>(3,049)</u>
Net assets - beginning of year, as adjusted	<u><u>\$ 869,112</u></u>

NOTE C - DEPOSITS AND INVESTMENTS

Under Michigan law, the Village may invest funds as follows:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

For disclosure purposes, the Village's cash and investments are categorized as follows:

<u>Balance Sheet Caption</u>	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash and equivalents	\$ 499,601	\$ -	\$ 499,601
Investments	147,600	151,419	299,019
Cash restricted for debt	<u>22,500</u>	<u>-</u>	<u>22,500</u>
Total carrying value	<u><u>\$ 669,701</u></u>	<u><u>\$ 151,419</u></u>	<u><u>\$ 821,120</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

Investments

The investments' carrying values are equal to their fair value. They consist entirely of U.S. Treasury notes held in a brokerage account which is fully insured by the Securities Investor Protection Corporation.

Deposits

The carrying value of deposits is \$669,701 and the bank balance is \$674,385. Of the bank balance, \$370,100 is insured by the Federal Deposit Insurance Corporation. The remaining balance of \$304,285 is uncollateralized.

NOTE D - PROPERTY TAXES

The Village collects real property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The county pays the Village for uncollected taxes as of September 15 out of proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. The total levy is 9.13 mills for real and personal property. The Village levied a total real and personal property tax of \$217,602.

NOTE E - INVESTMENT IN CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended February 28, 2005:

Governmental Activities

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Adjustments</u>	<u>Ending</u>
Land and land improvements	\$ 30,986	\$ -	\$ -	\$ 30,986
Building and improvements	111,737	-	-	111,737
Equipment	<u>279,393</u>	<u>71,126</u>	<u>4,016</u>	<u>346,503</u>
Total depreciable assets	422,116	71,126	4,016	489,226
Less accumulated depreciation	<u>(170,090)</u>	<u>(24,792)</u>	<u>1,058</u>	<u>(195,940)</u>
Total capital assets, net	<u>\$ 252,026</u>	<u>\$ 46,334</u>	<u>\$ 5,074</u>	<u>\$ 293,286</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Business-Type Activities

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Adjustments</u>	<u>Ending</u>
Buildings	\$ 6,078	\$ -	\$ -	\$ 6,078
Water systems	579,311	4,229	-	583,540
Equipment	19,983	940	-	20,923
Construction-in-progress	<u>41,213</u>	<u>9,903</u>	<u>-</u>	<u>51,116</u>
Total depreciable assets	646,585	15,072	-	661,657
Less accumulated depreciation	<u>(245,530)</u>	<u>(15,909)</u>	<u>-</u>	<u>(261,439)</u>
Total capital assets, net	<u>\$ 401,055</u>	<u>\$ (837)</u>	<u>\$ -</u>	<u>\$ 400,218</u>

NOTE F - LONG-TERM DEBT

Long-term debt consists of the following:

1980 Water Bonds are recorded in the Water Fund. Annual required principal payments range from \$6,000 to \$13,000, plus interest at 5% through 2020.

	\$ 136,000
Current portion	<u>6,000</u>
Total long-term debt	<u>\$ 130,000</u>

The following is a summary of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Water System Bonds	<u>\$ 142,000</u>	<u>\$ -</u>	<u>\$ 6,000</u>	<u>\$ 136,000</u>

Annual requirements to amortize long-term debt outstanding as of February 28, 2005, including interest payments of \$61,975, are as follows:

<u>Year Ending February 28,</u>	<u>Enterprise Funds</u>
2006	\$ 11,700
2007	12,400
2008	12,100
2009	12,775
2010	12,425
2011-2015	62,375
2016-2020	60,875
2021	<u>13,325</u>
Total	<u>\$ 197,975</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - INTERFUND TRANSFERS

Operating Transfers

A summary of operating transfers in and out of individual funds follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 35,000
Local Street Fund	16,180	-
Major Street Fund	-	6,180
Equipment Fund	<u>25,000</u>	<u>-</u>
Total government	<u>\$ 41,180</u>	<u>\$ 41,180</u>

NOTE H - PENSION PLAN

The Village participates in a defined contribution (money purchase) pension plan. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the year ended February 28, 2005 was \$85,591; total payroll for the year ended February 28, 2005 was \$114,200. Employer contributions are based upon a percentage of annual payroll. Employees make additional contributions of 4% of gross wages. Employees are vested 100% immediately in employee contributions and are vested as follows in employer contributions:

<u>Years of Service</u>	<u>Vested</u>
0 - 2	20 %
3	40 %
4	50 %
5	75 %
6	100 %

The Village fully funded its required contribution for the year ended February 28, 2005. Employer contributions for the years ended February 28, 2005, February 29, 2004 and February 28, 2003 amounted to \$4,280, \$3,349 and \$3,790, or 5%, of covered payroll. There were employee contributions of \$4,015 during the year.

None of the plan's assets are invested in the Village securities or those of related parties. There are no loans from the plan to the Village.

NOTE I - BUDGET VARIANCE UNDER P.A. 621

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated.

NOTES TO FINANCIAL STATEMENTS - Continued

During the year ended February 28, 2005, the Village incurred expenditures which were in excess of the amounts appropriated as follows:

General Fund	
General government	\$ 1,943
Major Street Fund	
Operating transfers out	430

NOTE J - RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime and inland marine claims. Also, the Village carries worker's compensation insurance with the Accident Fund Company. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - FUND BALANCE DESIGNATIONS

A portion of the Village's fund balance is designated for the following reasons:

Sand Building, sewer and study	\$ 3,989
Sidewalk	17,755
Infrastructure	40,000
Computer and software	953
Christmas decorations	2,308
Park	43,184
Cable franchise fees	7,651
Storm sewer	<u>134,850</u>
	<u>\$ 250,690</u>

NOTE L - RECONCILIATION OF CASH FLOWS

A reconciliation of operating loss to net cash used by operating activities follows:

Operating loss	\$ 4,525
Adjustments to reconcile net earnings	
Depreciation and amortization	34,802
Decrease in inventory	1,925
Decrease in accounts receivable	30
Decrease in prepaid expenses	775
Decrease in accounts payable	(845)
Increase in accrued liabilities	(142)
Increase in deferred revenue	<u>235</u>
Net cash provided by operating activities	<u>\$ 41,305</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE M - SUBSEQUENT EVENTS

The Village has made a commitment to two construction projects, M-22 project and Front Street project, to begin in April 2002 at an estimated cost of \$700,000 and \$980,000. As of February 28, 2005, \$53,364 and \$51,116, respectively, has been spent on the projects. The projects will be funded with grants, Village matching funds and bond proceeds.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Empire

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended February 28, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Property taxes	\$ 213,997	\$ 213,997	\$ 217,602	\$ -	\$ 3,605
Intergovernmental revenues	32,500	32,500	28,271	-	(4,229)
Interest income	5,500	5,500	4,807	-	(693)
Other	6,233	7,133	4,028	900	(3,105)
Total revenues	<u>258,230</u>	<u>259,130</u>	<u>254,708</u>	<u>900</u>	<u>(4,422)</u>
EXPENDITURES					
Legislative	6,524	6,524	5,921	-	603
General government	126,359	129,930	131,873	(3,571)	(1,943)
Public safety	8,000	8,000	5,424	-	2,576
Public works	14,448	14,448	7,766	-	6,682
Recreation and cultural	46,230	46,230	41,735	-	4,495
Capital outlay	100,100	131,300	70,524	(31,200)	60,776
Total expenditures	<u>301,661</u>	<u>336,432</u>	<u>263,243</u>	<u>(34,771)</u>	<u>73,189</u>
REVENUES (UNDER) OVER EXPENDITURES	<u>(43,431)</u>	<u>(77,302)</u>	<u>(8,535)</u>	<u>(33,871)</u>	<u>68,767</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers out	<u>(35,000)</u>	<u>(45,000)</u>	<u>(35,000)</u>	<u>(10,000)</u>	<u>10,000</u>
NET CHANGE IN FUND BALANCE	<u>(78,431)</u>	<u>(122,302)</u>	<u>(43,535)</u>	<u>(43,871)</u>	<u>78,767</u>
Fund balance, beginning of year	<u>430,224</u>	<u>430,224</u>	<u>381,481</u>	<u>-</u>	<u>(48,743)</u>
Fund balance, end of year	<u>\$ 351,793</u>	<u>\$ 307,922</u>	<u>\$ 337,946</u>	<u>\$ (43,871)</u>	<u>\$ 30,024</u>

Village of Empire

BUDGETARY COMPARISON SCHEDULE FOR THE MAJOR STREET FUND

Year Ended February 28, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Intergovernmental revenues	\$ 23,000	\$ 23,000	\$ 24,722	\$ -	\$ 1,722
Interest income	600	600	663	-	63
Total revenues	23,600	23,600	25,385	-	1,785
EXPENDITURES					
Public works	17,931	17,931	15,515	-	2,416
REVENUES OVER EXPENDITURES	5,669	5,669	9,870	-	4,201
OTHER FINANCING USES					
Operating transfers out	(5,750)	(5,750)	(6,180)	-	(430)
NET CHANGE IN FUND BALANCE	(81)	(81)	3,690	-	3,771
Fund balance, beginning of year	59,656	59,656	59,656	-	-
Fund balance, end of year	\$ 59,575	\$ 59,575	\$ 63,346	\$ -	\$ 3,771

Village of Empire

BUDGETARY COMPARISON SCHEDULE FOR THE LOCAL STREET FUND

Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u> (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
REVENUES					
Intergovernmental revenues	\$ 15,000	\$ 15,000	\$ 17,711	\$ -	\$ 2,711
Interest income	<u>700</u>	<u>700</u>	<u>837</u>	<u>-</u>	<u>137</u>
Total revenues	<u>15,700</u>	<u>15,700</u>	<u>18,548</u>	<u>-</u>	<u>2,848</u>
EXPENDITURES					
Public works	<u>22,955</u>	<u>32,955</u>	<u>16,060</u>	<u>(10,000)</u>	<u>16,895</u>
REVENUES OVER (UNDER) EXPENDITURES	(7,255)	(17,255)	2,488	(10,000)	19,743
OTHER FINANCING SOURCES					
Operating transfers in	<u>5,750</u>	<u>15,750</u>	<u>16,180</u>	<u>10,000</u>	<u>430</u>
NET CHANGE IN FUND BALANCE	(1,505)	(1,505)	18,668	-	20,173
Fund balance, beginning of year	<u>55,193</u>	<u>55,193</u>	<u>55,193</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 53,688</u>	<u>\$ 53,688</u>	<u>\$ 73,861</u>	<u>\$ -</u>	<u>\$ 20,173</u>

OTHER SUPPLEMENTARY INFORMATION

Village of Empire

NON-MAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET

February 28, 2005

	<u>Special Revenue Funds</u>		<u>Total Other Non-Major Funds</u>
	<u>Memorial Fund</u>	<u>Liquor Law Enforcement Fund</u>	
ASSETS			
Cash	<u>\$ 8,332</u>	<u>\$ 3,609</u>	<u>\$ 11,941</u>
FUND BALANCE			
Unreserved	<u>\$ 8,332</u>	<u>\$ 3,609</u>	<u>\$ 11,941</u>

Village of Empire

NON-MAJOR GOVERNMENTAL FUNDS - COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended February 28, 2005

	<u>Special Revenue Funds</u>		Total Other Non-Major Funds
	<u>Memorial Fund</u>	<u>Liquor Law Enforcement Fund</u>	
REVENUES			
Intergovernmental revenues	\$ -	\$ 1,039	\$ 1,039
Contributions	250	-	250
Interest income	<u>121</u>	<u>40</u>	<u>161</u>
Total revenues	<u>371</u>	<u>1,079</u>	<u>1,450</u>
EXPENDITURES			
Community activities	<u>-</u>	<u>385</u>	<u>385</u>
Total expenditures	<u>-</u>	<u>385</u>	<u>385</u>
REVENUES OVER EXPENDITURES	371	694	1,065
Fund balance, beginning of year	<u>7,961</u>	<u>2,915</u>	<u>10,876</u>
Fund balance, end of year	<u><u>\$ 8,332</u></u>	<u><u>\$ 3,609</u></u>	<u><u>\$ 11,941</u></u>



DENNIS, GARTLAND & NIERGARTH P.C.

Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary E. Krantz, CPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable President and
Members of the Village Council
Village of Empire
Leelanau County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the *Village of Empire* (the "Village") as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated June 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Village Council and others within the organization and is not intended to be and should not be used by anyone other than those specified parties.

Dennis, Gartland & Niergarth, P.C.

June 9, 2005
Member of



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